

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Mayor and Aldermen
City of Manchester, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate fund information of the City of Manchester, New Hampshire ("the City") as of and for the year ended June 30, 2002 which collectively comprises the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the Manchester School District or the Manchester Transit Authority, component units of the City, which financial statements reflect 99.5% of the revenues and 12% of the assets of the discretely presented component units. We also did not audit the City of Manchester Employees' Contributory Retirement System, a pension trust fund and a blended component unit of the City, which represents 81% of the assets and 11% of the additions of the pension trust fund. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to amounts included for the Manchester School District, the Manchester Transit Authority and the City of Manchester Employees' Contributory Retirement System, component units of the City, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the reports of other auditors, provide a reasonable basis for our opinion.

As described in Note 9 to the basic financial statements, the City accounted for the receipt of title to the Manchester Civic Center as a non-exchange transaction. We were not able to obtain sufficient evidence to satisfy ourselves as to the propriety of this accounting treatment of the carrying value of net assets.

In our opinion, except for the effect, if any, of the reporting of the receipt of title to the Manchester Civic Center as a non-exchange transaction on governmental activities, as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Manchester, New Hampshire, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 14 to the basic financial statements, the City adopted a number of new governmental accounting and reporting pronouncements as of July 1, 2001.

The management discussion and analysis on pages 17 through 30 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with "Government Auditing Standards," we have also issued our report dated October 26, 2002 on our consideration of the City of Manchester, New Hampshire's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, budgetary detail, combining and individual nonmajor fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

New Haven, Connecticut
October 26, 2002

**City of Manchester, New Hampshire
Management's Discussion and Analysis
June 30, 2002**

As management of the City of Manchester, New Hampshire (the "City") we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here along with additional information we have furnished in our letter of transmittal, as well as the City's basic financial statements that follow this section.

Financial Highlights

- ◆ On a government-wide basis, the assets of the City exceeded its liabilities resulting in total net assets at the close of the fiscal year of \$345.6 million. Total net assets for Governmental Activities at fiscal year-end was \$63.5 million and total net assets for Business-Type Activities were \$282.1 million. The unrestricted net assets at June 30, 2002 were \$25.3 million or 7.3% of the City's total net assets.
- ◆ On a government-wide basis, during the year, the City's net assets increased by \$95.1 million or 38%, from \$250.5 million to \$345.6 million. Net assets increased by \$65.9 million for Governmental Activities and net assets increased by \$29.2 million for Business-Type Activities. Government-wide expenses were \$166.8 million, while revenues were \$262 million.
- ◆ At the close of the year, the City's governmental funds reported, on a current financial resource basis, combined ending fund balances of \$43.4 million, an increase of \$6.7 million from the prior fiscal year. Of the total fund balance as of June 30, 2002, \$9.65 million is available for spending at the government's discretion and represents the combined unreserved fund balance in the general fund, special revenue funds, capital projects fund and permanent funds.
- ◆ At the end of the current fiscal year, the total fund balance for the general fund alone was \$21.8 million, a increase of \$2.1 million from the prior fiscal year. Included in the fiscal year 2002 budget was an appropriation of \$1.5 million of unreserved fund balance. As of June 30, 2002, \$4.68 million of the total general fund fund balance represents unreserved general fund balance. Unreserved general fund fund balance at year-end represents 3.9% of total general fund expenditures and transfers out (\$118.5 million).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information as well as the basic financial statements.

It is important to note that the City implemented the new reporting requirements outlined in GASB 34 effective July 1, 2001. The financial statements, therefore, contained within this report as of June 30, 2002, are the City's first report using the new reporting model. In addition, the City is among one of the first municipalities in the State of New Hampshire required to report under the new model for the fiscal year ended June 30, 2002. As allowed under GASB 34, the City elected not to present all required comparative data for this year of implementation. Therefore, many prior year comparisons of the City and comparisons with other similar municipalities are not available to aid the reader in comparative analysis. The report for fiscal year ending June 30, 2003, will contain more comparative information both with similar governments and with the City itself.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. All of the resources the City has at its disposal are shown, including major assets such as buildings and infrastructure. A thorough accounting of the cost of government is rendered because the statements present all costs, not just how much was collected and disbursed. They provide both long-term and short-term information about the City's overall financial status.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference reported as net assets (deficits). Over time, increases or decreases in net assets (deficits) may serve as an indicator of whether the financial position of the City is improving or deteriorating. It speaks to the question of whether or not, the City, as a whole is better or worse off as a result of this year's activities. Other non-financial factors will need to be considered, however, such as changes in the City's property tax base and the condition of the City's infrastructure, to assess the overall health of the City.

The statement of activities presents information showing how the government's net assets (deficits) changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in some future fiscal period, uncollected taxes and earned but unused vacation leave are examples.

Both of the government-wide financial statements distinguish functions of the City of Manchester that are supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities).

- ◆ Governmental activities of the City encompass most of the City's basic services and include governmental and community services, administration, public safety, health and sanitation, highways and streets, welfare, and education and library as well as cemetery, and parks and recreation. Property taxes, charges for services and state and federal grants finance most of these activities.
- ◆ Business-type activities of the City consist of the Water Works, Environmental Protection Division, Aviation, Recreation and the Aggregation Program. They are reported here, as the City charges a user fee to customers to help cover all or most of the cost of operations.

- ◆ The government-wide financial statements include not only the City itself, but also three legally separate component units, the Manchester School District, the Manchester Transit Authority and the Manchester Development Corporation.

The government-wide financial statements (statement of net assets and statement of activities) can be found on pages 32-35 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control and accountability over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has three kinds of funds:

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Projects which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation as Other Governmental Funds. Non-major governmental funds for the City include the HUD Section 108 Fund, Cash Special Projects Fund, Community Development Block Grant Fund, Other Grants Fund, Civic Center Fund, and the Revolving Loan Fund. Permanent Funds consist of the Cemetery Fund and the Library Fund. Individual fund data for each of these non-major governmental funds is provided in the combining balance sheets on pages 94-95 and in the combining statement of revenues, expenditures and changes in fund balance on pages 96-97.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the authorized budget. The statement of revenues, expenditures and changes in fund balance on a budgetary basis can be found on page 39.

The basic governmental fund financial statements (balance sheet and statement of revenues, expenditures and changes in fund balance) can be found on pages 36-37 of this report.

Proprietary funds. The City of Manchester maintains five proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Manchester uses enterprise funds to account for its Water Works, Environmental Protection Division, Aviation, Recreation and the Aggregation Program Funds. The proprietary fund financial statements provide separate information for the Water Works, Environmental Protection Division and Aviation, which are considered to be major funds of the City of Manchester. Conversely, both of the remaining funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the Recreation Fund and the Aggregation Program is provided on pages 99-101 in the form of combining statements elsewhere in this report.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found on pages 40-42 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to provide services to the City's constituency. The City has two pension trust funds and one agency fund. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 43-44 and 71-72 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 52-54 of this report.

The notes to this report also contain certain information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position and an important determinant of its ability to finance services in the future. On a government-wide basis, the City's assets exceeded its liabilities by \$345.6 million at June 30, 2002.

Reported for the first time this year were some of the City's infrastructure assets including roads, sidewalks, bridges, dams, right-of-ways, streetlights, and culverts, all of which have useful lives that range between 20 and 50 years. The City has, in the past, reported only its storm and sanitary sewers with useful lives of 50 years.

CITY OF MANCHESTER, NEW HAMPSHIRE
NET ASSETS (\$000's)
JUNE 30, 2002

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
Current and other assets	\$ 118,097	\$ 159,747	\$ 277,844
Non-current assets	18,511	9,268	27,779
Capital assets	173,630	464,750	638,380
Total Assets	310,238	633,765	944,003
Current liabilities	73,046	20,634	93,680
Long-term liabilities outstanding	173,697	330,999	504,696
Total Liabilities	246,743	351,633	598,376
Net Assets:			
Invested in capital assets, net of related debt	73,140	202,690	275,830
Restricted	17,994	26,540	44,534
Unrestricted	(27,639)	52,903	25,264
Total Net Assets	\$ 63,495	\$ 282,133	\$ 345,628

At the end of the current fiscal year, the City is able to report a positive balance in both its governmental and proprietary activities.

The portion of the City's net assets of \$275.8 million reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), net any outstanding debt related to these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The portion of the City's net assets that are restricted, \$44.5 million, represents resources that are subject to external restrictions on how they may be used. Governmental unrestricted net assets (deficit) of (\$27.6) million may not be used to meet the government's ongoing obligations to citizens and creditors, due to the negative balance. The primary reasons for the negative balance are due to the issuance of the 1993 Fiscal Year Conversion Bonds, which were issued to properly fund revenue and expenditure timing differences, which has an outstanding balance of \$9,696,425 as well as related Capital Appreciation Bonds accrual of \$6,909,802, the Pension Obligation Bond with an outstanding balance of \$17,803,855, which was issued to properly fund the unfunded amount, the Landfill Closure Project, which has an outstanding balance of \$1,330,246, other landfill closure and post-closure care costs estimated liability with an outstanding balance of \$21,509,737, Urban Renewal Related Projects with outstanding balances of \$5,211,085, Revaluation debt with an outstanding balance of \$1,185,000, long-term debt related to insurance claims with an estimated

outstanding balance of \$4,071,081, as well as long-term debt related to compensated absences with an estimated outstanding balance of \$5,418,492 at June 30, 2002.

CITY OF MANCHESTER, NEW HAMPSHIRE
CHANGES IN NET ASSETS (DEFICITS) (000's)
JUNE 30, 2002

	Primary Government		
	Governmental Activities	Business- Type Activities	Total Government
Revenues:			
Program Revenues:			
Charges for services	\$ 34,999	\$ 61,790	\$ 96,789
Operating Grants and contributions	21,491	2,812	24,303
Capital Grants and contributions	65,739	26,468	92,207
General Revenues:			
Property Taxes	58,359	-	58,359
Grants not restricted to specific programs			
Unrestricted investment earnings	2,122	2,762	4,884
Transfers and other	2,096	(16,662)	(14,566)
Total revenues	184,806	77,170	261,976
Expenses:			
General government	38,574	-	38,574
Public safety	38,059	-	38,059
Health and sanitation	3,527	-	3,527
Highways and streets	30,354	-	30,354
Welfare	2,240	-	2,240
Education and library	4,835	-	4,835
Parks and recreation	835	-	835
Cemetery Trust	27	-	27
Investment management fee	20	-	20
Contribution to Pension Trust Fund	449	-	449
Operations	-	47,928	47,928
Total Expenses	118,920	47,928	166,848
Change in net assets	65,886	29,242	95,128
Net assets (deficits)-beginning	(2,391)	252,891	250,500
Net assets -ending	\$ 63,495	\$ 282,133	\$ 345,628

Manchester's net assets increased by \$95.1 million during the fiscal year, with net assets of Governmental Activities increasing by \$65.9 million, and net assets of Business-Type Activities increasing by \$29.2 million. The increase in net assets within Business-Type Activities is due to the degree to which increases in capital contribution revenues have outstripped increases in expenses.

Governmental Activities

More than 35.6% of the revenues were derived from other capital grants, 31.6% from property taxes, followed by 18.9% from charges for services, then 11.6% from operating grants and finally, about 2.3% of the City's revenue in this fiscal year was derived from a combination of investment earnings, gain (loss) of sales of capital assets, and transfers.

Major revenue factors included:

- ◆ Manchester Housing and Redevelopment Authority capital grants related to the Civic Center contributions totaled \$65,700,698.
- ◆ Property tax revenues recorded for fiscal year 2002 reflect an increase in the City's tax billings, implementation of the city-wide revaluation and growth in the total assessed value of all taxable property of 4.6%.
- ◆ Investment earnings fell in the general fund from \$2.25 million in the prior fiscal year to \$1.13 million for the fiscal year ended June 30, 2002. The reduction in interest and dividend earnings was the result of a slowing economy and the subsequent reduction in interest rates.

Business-Type Activities

Business-Type activities increased the City's net assets by \$29.2 million.

- ◆ Aviation fund capital contributions amounted to \$23.2 million, an increase from \$4.04 million the previous year .

Financial Analysis of the Fund Financial Statements

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$43.38 million, an increase from \$36.66 million as reported on June 30, 2001. Approximately 22.2% of this total amount constitutes unreserved fund balance that is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) \$14.5 million to cemetery, library and other trust funds, 2) \$2.63 million to liquidate contracts and purchase orders of the prior period, 3) \$1.25 million to self-insured workers' compensation claims reserve, 4) \$1.7 million for advances to an enterprise fund and 5) \$.6 million for inventory.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$4.68 million while the total fund balance reached \$21.8 million. As a measure of the general fund's liquidity, it may be useful to

compare both unreserved fund balance and total fund balance to total fund expenditures and education operating transfers. Unreserved fund balance represents 4% of total general fund expenditures, while total fund balance represents 18.7% of that same amount.

Proprietary funds. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the proprietary fund consisting of the Water Works were \$59.03 million, as compared to \$59.76 million in the prior year.

The unrestricted net asset of the Water Works was \$1.6 million. The Water Works experienced operating revenues of \$9.73 million from user fees. There was a total net loss for the Water Works of \$2.67 million, which included a transfer to the pension trust fund for \$1.85 million, before capital contributions of \$1.9 million. The change in net assets for the fiscal year ended June 30, 2002 was (\$731,002).

The total assets for EPD remained relatively flat with a \$148.5 million ending balance at June 30, 2002. Total current assets decreased by \$3.3 million while total capital assets increased by \$3.3 million. The fiscal year 2002 ending fund balance (net assets) is \$103.3 million. Of this amount, \$66 million is invested in capital assets and \$.2 million is restricted for equipment replacement.

The change in net assets for fiscal year 2002 reflects an increase of \$.9 million compared to an increase of \$5.8 million for fiscal year 2001.

This past year has been a strenuous and difficult year for the entire aviation industry as a result of the terrorist acts of September 11, 2001. Nationwide, commercial airports have experienced significant declines in passengers and revenue and large increases in expenses due to federally mandated security reforms.

Contrary to the national trend, Manchester Airport was able to absorb a temporary decline in passengers during September 2001 and for the following two months, but finished the fiscal year with an approximate one percent growth rate over fiscal year 2001 in terms of total passengers. Nationwide, most commercial airports experienced passenger growth rate declines on the order of five to ten percent, with some major hub airports with even greater growth rate declines. Despite September 11th, Manchester Airport is pleased to report its best financial performance to date. Net operating income grew from \$9,795,246 in FY 2001 to \$11,366,591 in FY 2002, an increase of 16%. The change in net assets, which includes the effects of capital contributions, grew from \$13,790,871 in FY2001 to \$29,774,730 in FY 2002, a change of 115.9%.

Total assets increased from \$311,782,018 in FY 2001 to \$410,344,654 in FY 2002. For FY 2002, net cash provided by operating activities was \$18,843,050 an increase in net cash of \$1,124,774 or 6.3%. Cash and cash equivalents increased from \$41,822,305 in FY 2001 to \$104,932,286 in FY 2002. This very significant cash and cash equivalents increase (151%) was due in large measure to bond fund proceeds (previously mentioned) received in FY 2002. Bond fund proceeds are, of course, restricted in their use for the intended capital projects.

Management was able to achieve the above financial results, in the face of devastating industry-wide declines after September 11th, through a thorough expense analysis with prudent reductions in discretionary spending, as well as delaying replacement of departing personnel and curtailment of new hires and travel expenses. Management was proactive in approaching the need for much increased security requirements and the concomitant overtime, and equipment. As a result, management-proposed solutions were accepted by the FAA and TSA and partial federal reimbursement of these expenses was received with an expectation of more to follow.

On the revenue side, management chose not to increase the rate burden on an already struggling airline industry by increasing rates and charges. Rather, the Airport stabilized its existing airline rates and charges with positive results. Contrary to the national trend, some airlines actually increased service at Manchester post-September 11th, which added to our landing fee receipts growth over the previous year. As our security expenses increased, management made the decision to pass some of these costs on to the users of the Airport, e.g., the traveling public. This was accomplished through an increase in parking rates, implemented in March 2002. Despite this parking rate increase, Manchester Airport's parking rate structure remains very competitive with our neighboring major airports to the south, i.e., Boston-Logan and T.F. Green. The traveling public readily accepted this increase.

General Fund Budgetary Highlights

The City ended Fiscal Year 2002 with an improved balance sheet over FY 2001. The City's "rainy day" revenue stabilization fund increased from \$9,008,623 to \$9,576,915. The City's undesignated fund balance also improved from \$3,777,077 to \$4,683,957. Equally important, the City's reserves for workers compensation, health insurance, and general liability were also significantly strengthened.

The difference between the original budget and the final revised budget was \$150,000. The additional appropriation approved during the year are summarized below:

- ◆ The net budget amendment dated December 15, 2001 increased the welfare department expenditures budget by \$880,000.
- ◆ These additional appropriations were offset by reductions in original budgeted appropriations as summarized below:
- ◆ A reduction from original General Government appropriations of \$177,876.
- ◆ A reduction from original CIP transfers appropriations of \$150,000.
- ◆ A reduction from original Debt Service appropriations of \$100,000.
- ◆ A reduction from original Public Safety appropriations of \$132,529.
- ◆ A reduction from original Health appropriations of \$6,056.
- ◆ A reduction from original Highways and Streets appropriations of \$265,976.
- ◆ A reduction from original Education and Library appropriations of \$13,787.
- ◆ A reduction from original Parks and Recreations appropriations of \$33,776.

During the year, actual revenues and other financing sources on a budgetary basis were \$99.4 million, which were short of budgetary estimates by \$2.6 million. Actual tax revenues

exceeded budget by \$202,330. Actual intergovernmental revenue was \$133,687 over budgetary estimates primarily due to lower anticipated revenues granted to the City through various state programs. Investment income was \$692,352 less than the \$1.8 million that had been budgeted. The budgeted amounts, for investment income was predicated upon historical short-term interest rates that prevailed during the budget preparation period. These assumptions did not anticipate the sharp decline in interest rates during fiscal 2002 and following September 11th. Additional shortfalls of \$522,058 resulted in fees, permits. Nonenterprise charges for sales and services were \$861,925 less than budgeted. Other revenues were \$904,048 less than budgeted.

Actual expenditures on a budgetary basis and other financing uses totaled \$98.5 million, \$5.4 million less than budgeted. The combined net difference of budgeted revenues and expenses on a budgetary basis resulted in a positive variance of \$2,776,051. The fiscal year 2002 budget included a planned appropriation of fund balance of \$1.5 million.

General Fund Revenues - The following schedule presents a summary of General Fund revenues (GAAP basis) for the years ended June 30, 2002 and 2001.

Revenues	2002 Amount (000's)	2001 Amount (000's)	Amount of Increase (Decrease) (000's)	Percent of Increase (Decrease)	
Taxes	\$ 59,021	\$58,628	\$ 393	0.67	%
Federal and State Grants	7,292	7,147	145	2.03	
Nonenterprise charges for sales and services	4,432	3,898	534	13.70	
Licenses and Permits	19,745	18,433	1,312	7.12	
Interest	1,133	2,256	(1,123)	(49.78)	
Other	9,120	7,942	1,178	14.83	
Total	\$100,743	\$98,304	\$ 2,439	2.48	%

The increase in revenues is due mainly to automobile registrations and charges to the School District.

General Fund Expenditures - The following schedule presents a summary of General Fund Expenditures (GAAP basis) for the years ended June 30, 2002 and 2001.

Expenditures	2002 Amount (000's)	2001 Amount (000's)	Amount of Increase (Decrease) (000's)	Percent of Increase (Decrease)
General government	\$18,369	\$17,385	\$ 984	5.66 %
Public safety	34,556	32,149	2,407	7.49
Health and sanitation	2,712	2,620	92	3.51
Highway and streets	20,099	19,717	382	1.94
Welfare	2,147	1,402	745	53.14
Education	2,259	2,184	75	3.43
Parks and recreation	3,034	2,941	93	3.16
Debt service	14,754	13,873	881	6.35
Pension benefit payment	18,660	0	18,660	100.00
Total	\$116,590	\$92,271	\$24,319	26.36 %

The overall increase in expenditures is due primarily to salary and benefit costs. Employee benefit costs rose more than 18.4% due to rising health insurance costs.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2002, amount to \$638.4 million, net of accumulated depreciation. This investment in capital assets includes land, building and system improvements, machinery and equipment, park facilities, roads, sewers and bridges. The total increase in the City's investment in capital assets for the current fiscal year was \$62.7 million or 12.2%.

CITY OF MANCHESTER, NEW HAMPSHIRE CAPITAL ASSETS (net of depreciation)(000's) JUNE 30, 2002

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
Land	\$ 18,366	\$ 10,377	\$ 28,743
Buildings and improvements	114,839	235,201	350,040
Infrastructure	17,572	-	17,572
Machinery, equipment, distribution and collection systems	5,309	52,118	57,427
Construction in progress	17,544	167,054	184,598
Total	\$ 173,630	\$ 464,750	\$ 638,380

Major capital asset events during the current fiscal year included the following:

- ◆ Addition of the Civic Center.
- ◆ Improvements and renovations to school buildings and facilities.
- ◆ Continued rehabilitation of playgrounds and athletic fields.
- ◆ Infrastructure improvements including roads, bridges, and sanitary and sewer projects.
- ◆ Replacement of several pieces of emergency and rescue equipment for the fire department and purchase of police vehicles.
- ◆ Acquisition of parcels for ongoing city development projects.

Additional information on the City of Manchester's capital assets can be found in Note 8 on pages 63-66 of this report.

**CITY OF MANCHESTER, NEW HAMPSHIRE
OUTSTANDING DEBT
GENERAL OBLIGATION AND REVENUE BONDS (000's) in thousands
JUNE 30, 2002**

	Governmental Activities	Business- Type Activities	Total
General obligation bonds	\$ 135,788	\$ 50,927	\$ 186,715
Revenue bonds	-	275,329	275,329
Totals	\$ 135,788	\$ 326,256	\$ 462,044

Long-term debt. At the end of the current fiscal year, the City had total debt service requirements, on bonded debt outstanding, of \$537,578,155. 100% of the general obligation debt is backed by the full faith and credit of the City government.

The City's total debt increased by \$55.5 million during fiscal 2002. During the current fiscal year, the City refinanced some of its outstanding debt to take advantage of favorable interest rates that resulted in present value cash flow savings of \$287,843. The refunding reduces debt service payments over the remaining ten year term of the issues in the amount of \$351,492.

Moody's Investors Service, Inc. has assigned it's municipal bond rating of "Aa2" to the City for the its uninsured general obligation debt .

The general debt limit of the City is 9.75% of base valuation. The base valuation (\$5,952,027,109) for computing the debt limit is determined by adding the amount of taxable property lost to cities, towns and districts as a result of the enactment of the State Business Profit Tax Law to the "equalize assessed valuation." Not more than 7% of the base valuation may be incurred for school purposes. Water and Sewer projects ordered by the State Water Supply and Pollution Control Commission, self-supporting sewer debt, debt for urban redevelopment and housing purposes, and overlapping debt are excluded from the measure of indebtedness. Other water projects are subject to a separate, special debt limit of 10% of the

City's base valuation. Borrowings authorized by legislative acts rather than the general municipal finance statutes are sometimes excluded from a city or town's debt limit. The Total Equalized Valuation figure includes Utility Valuation and Railroad Monies Reimbursements. The total bonded debt for the general government includes the School District portion. As of June 30, 2002, the City recorded long-term debt of \$88.1 million related to Governmental Activities, \$47.7 related to the School District and \$50.9 million related to Business-Type Activities, well below its statutory debt limit.

Additional information on the City of Manchester's long-term debt can be found in Note 9 on pages 67-70 of this report.

Economic Factors and Next Year's Budgets and Rates

As of November 2002, the unemployment rate for the Manchester Metropolitan Statistical Area was 4.6%, up from under 3% in the prior year. Moreover, New Hampshire state government is now reporting serious revenue shortfalls that may translate into reductions in State aid to the City of Manchester and other municipalities in the State.

Requests for Information

The financial report is designed to provide a general overview of the City's finances for all those with an interest in government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance at One City Hall Plaza, Manchester, NH 03101.